



-- UNAPPROVED --

## **Minutes of the Commission Meeting**

Room 412 Capitol Building

**November 18, 2011**

Chairman Kory Menken called the November 18, 2011 meeting of the South Dakota Lottery Commission to order at 9:30 a.m. and welcomed new Commissioner Doyle Estes.

MEMBERS PRESENT: Kory Menken, Bob Hartford, Duane Schmautz, Dick Werner, and Doyle Estes

MEMBERS ABSENT: Jim Peterson and Virginia Nelson

SUPPORT STAFF PRESENT: Revenue Secretary Andy Gerlach, Norm Lingle, Kelly Thompson, Joe Willingham, Deb Reese, Sherry Lauseng, Andrew Fergel and Mary Jo Bibby

### **APPROVAL OF THE AGENDA AND MINUTES**

Commissioner Duane Schmautz moved and Commissioner Doyle Estes seconded the motion to approve today's agenda and the minutes of the September 27<sup>th</sup> 2011 meeting. Motion carried.

### **EXECUTIVE DIRECTOR'S COMMENTS**

*Executive Director Norm Lingle reported on the following:*

#### NEW COMMISSIONER:

Lingle welcomed Doyle Estes to the Commission.

#### MANUFACTURERS:

Three manufacturers are now approved to produce machines with line game software.

#### MULTI-DROP CONNECTIVITY DEVICES:

MCD's are being installed in establishments that have a SAS protocol video lottery terminal. Video lottery staff has been busy facilitating these installations.

#### VIDEO LOTTERY NMI:

Video lottery net machine income is down 18.4 percent since the implementation of the statewide smoking ban.

## **SECRETARY OF THE DEPARTMENT OF REVENUE'S COMMENTS:**

*Secretary Andy Gerlach addressed the Commission:*

### COMMENTS:

Secretary Gerlach discussed the mention of Chairman Menken in a recent news article and welcomed Doyle Estes to the Commission. Secretary Gerlach said the introduction of line games is a priority with the Revenue Department. Positive feedback has been received regarding recent changes to the video lottery system.

### OTHER STATE GAMING:

The Gaming Commission has approved additional machines in a reservation casino. The status of gaming in Deadwood will be discussed at an upcoming meeting with Deadwood gaming officials

### LEGISLATION:

The department has submitted nine bills for consideration by the Legislative task force and Governor Daugaard. The Governor's Budget Address has been prepared for presentation.

### STATE REVENUE:

Gerlach stated that the State's revenue picture is in good shape due to increases in sales and use taxes, contractors' excise tax and the farm economy.

## **PUBLIC RULES HEARING:**

*At 9:45 a.m., Chairman Menken announced the opening of the rules hearing to consider the adoption and amendment of proposed rule number § 48:03:06:05.*

*A brief recess was called to resolve a problem with the microphones. At 9:50 a.m. the hearing resumed.*

Director of Sales Joe Willingham gave a brief overview of the changes to the Powerball game:

Sales of the new game will begin January 15, 2012 and the first drawing will be held January 18, 2012. The price of a ticket will be \$2. The matrix will change from 5 of 59 plus 1 of 39 to 5 of 59 plus 1 of 35. Jackpots will start at \$40 million rather than \$20 million. The price of the Power Play multiplier will remain \$1.

The second level prize with the Power Play option will be fixed at \$2 million (previously \$1 million), the third level prize will be fixed at \$40 thousand (previously \$10 thousand), the fourth level prize will be fixed at \$200 (previously \$100), the fifth level prize will be fixed at \$14 (previously \$7) and the sixth level prize will be fixed at \$12 (previously \$4). Jackpots will be hit more frequently and for higher amounts.

*Chairman Menken opened the hearing to public testimony.*

There was no public testimony. Legal counsel Andrew Fergel announced that no written testimony had been received.

*Chairman Menken closed the hearing to public testimony.*

Commissioner Dick Werner moved to adopt the rule change and Commissioner Bob Hartford seconded the motion. The roll was called and the motion carried unanimously.

**DECLARATORY RULING:**

*Joe Willingham gave an overview of Declaratory Ruling 11-1, changing the retailer bonus program to reflect changes in the Powerball game.*

The bonus for selling a jackpot will remain unchanged. The Powerball second level bonus will increase from \$10,000 to \$20,000, capped at one bonus distribution. The Powerball third level bonus will remain unchanged as will the Power Play jackpot bonus and the Power Play second level bonus. The third level Power Play bonus will increase from \$1,000 to \$4,000 and will be capped at two bonus distributions.

Commissioner Estes moved to approve Declaratory Ruling 11-1. Commissioner Hartford seconded the motion. Commissioner Werner asked about the caps. Willingham responded that the cap is the maximum number of bonuses to be paid at a given level. Werner also asked why we are increasing the bonus levels when our revenue is down. Willingham responded that the new bonus structure brings the bonuses in line with the prizes being generated. Lingle added that instant sales are up even though overall sales are down. Willingham added that bonuses help keep and recruit retailers.

Commissioner Estes said that increasing bonuses motivates retailers and is a smart marketing tactic.

Chairman Menken called the question. The roll was called and the vote was 4 to 1. Chairman Menken declared the motion carried. Voting aye were Menken, Hartford, Schmautz and Estes. Voting nay was Werner.

**SALES REPORT**

*Director of Sales Joe Willingham reported:*

**INSTANT GAMES:**

Willingham stated that instant game sales are up 14 percent with all games selling briskly. Over 3,000 entries have been received in the Wheel of Fortune drawing for trips to Hollywood. The drawing will be held February 9, 2012. A second drawing will be held on August 17, 2012 for \$1 million cash.

Upcoming games include Double Wild Jacks, Just Plain Bingo 2, Slots of Cash, Lucky Leprechaun, Spades, and 24 Karat Cash.

**LOTTO GAMES:**

Lotto sales are up 7.9 percent from the same period last year.

Powerball sales are up 19 percent, Hot Lotto sales are down 15 percent, Mega Millions sales are up 11 percent, Dakota Cash sales are down 4 percent and Wild Card sales are down 14 percent.

REVENUE PROJECTIONS:

Video Lottery revenue projection for FY2012 is \$74.47 million, the instant projection is \$5.56 million, and the lotto projection is \$6.37 million.

STAFF CHANGES:

Sales representative Peggy Moller has retired and her position has been filled by the Lottery's current validation clerk Nancy Bugay. The validation clerk position has been filled by June Classen.

**PUBLIC RELATIONS/ADVERTISING REPORT**

*Director of Public Relations and Advertising Kelly Thompson reported on the following:*

BIG WINNERS:

There were four jackpot winners since September. Deidre McInerney of Gillette won a \$68,071 Dakota Cash jackpot, Mike Swier of Hartford won a \$100,406 Dakota Cash jackpot, Jennifer Lanners of Sioux Falls won a \$125,000 Wild Card jackpot, and Kathryn Adams of Peever won a \$21,120 Dakota Cash jackpot.

Winners of a \$50,000 Power Play, a \$10,003 Powerball, a \$10,002 Hot Lotto, a \$10,000 Powerball and three \$5,000 Wild Card were claimed.

Seven other players won lotto prizes from \$3,000 to \$50,000.

One \$18,000; two \$12,000; one \$5,000; and two \$5,000 scratch ticket top prizes have been awarded since the last meeting.

Talena Standing Bear Montelongo of Wanblee was awarded a Camaro in the October 19, 2011 Camaro Cash drawing. One Camaro may still be won instantly.

PRESS RELEASES:

The Lottery has released five jackpot winner alerts, four other winner alerts, 11 press releases and 12 winner counts since September 28, 2011.

VIDEO LOTTERY RADIO CAMPAIGN:

The Lottery has begun actively advertising the new video lottery games, running 30-second radio ads with informational content. The ads, which are aired by Weather Eye sponsored stations, are currently announcing that new games are coming soon. In early December, ads will announce that the new games are now available.

HOLIDAY ADVERTISING CAMPAIGN:

A television ad featuring holiday scratch games will air November 24 through December 28 on seven stations. Thirty-second radio ads will air November 28 through December 23. 4' x 6' kiosk ads will be displayed at the Rushmore and Empire Malls November 21 through December 25. Electronic billboards in Sioux Falls and Rapid City will promote last minute purchases. Two ceiling posters will be deployed the week of November 7. Holiday ticket will be featured on the ESMM monitors starting November 17.

**FACEBOOK:**

As of 8 a.m. today the Lottery's Facebook page has 506 fans. The site was launched about three months ago for the purpose of putting a more personal face on the Lottery. The site is "age-gated" so it can only be accessed by people age 18 and older.

**UPCOMING EVENTS:**

Advertising of the \$2 Powerball game will begin following approval by the Legislative Rules Review Committee next month. The National Council on Problem Gambling Holiday Campaign will begin December 7 to discourage people from giving underage individuals lottery tickets over the holidays. The "12 Days of Giveaways" promotion will award tickets and premium items to Players Club members.

Commissioner Hartford asked if there has been any negative feedback on the new video lottery ads. Thompson responded that there has not. Commissioner Estes asked who does the Lottery's advertising. Kelly responded that Robert Sharp & Associates of Rapid City is our ad agency.

**VIDEO LOTTERY REPORT**

*Director of Security and Video Lottery Operations Deb Reese reported on the following:*

**VIDEO LOTTERY REVENUE:**

Net machine income is \$62.59 million, which is down 20.83 percent from the same time last year. There is an average of 9,114 terminals, .9 percent fewer than last year. There is an average of 1,516 establishments.

**LICENSING/TESTING UPDATE:**

Gametech (Summit) software and machines have been approved, and 128 kits and 96 new machines have been sold. Spielo software has been approved and as of Wednesday morning 486 of the 600 plus Spielo machines have been updated to the new software. They have sold 31 new machines. MTD gaming software was approved on November 17, 2011.

IGT, Grand Vision Gaming, Aristocrat, and Harms Vending are all at various points in the testing process. An application from Scientific Games is being reviewed.

**STAFF CHANGES:**

Reese also announced that Al Jorgenson will be vacating his position. His position will be filled by Marty Johnson, a current lottery computer operator.

**MULTI-DROP CONNECTIVITY DEVICE**

*Executive Director Norm Lingle reported:*

Five hundred Multi-Drop Connectivity Devices (MCD's) have been purchased, 80 of which have been installed. A survey of operators indicated that about 795 establishments would need the devices. Lingle requested that the Lottery be allowed to purchase 300 more MCD's to meet the anticipated demand. Commissioner Werner asked about servicing the devices and why the operators were not purchasing the devices. Lingle responded that the Lottery will handle all warranty issues under the warranty provisions provided by Scientific Games. Lingle stated that the purchase of new machines is a significant investment by operators and that supplying the

MCD's is a show of Lottery support for the operators who are making those investments. Commissioner Hartford said he applauded the decision of the Lottery to provide MCD's to establishments who are interesting in getting into the line game business. Commissioner Hartford moved to authorize the purchase of an additional 300 MDC's. Commissioner Estes seconded the motion and stated that providing the MCD's is a good incentive for operators to invest in new machines.

Chairman Menken called the question. The roll was called and the vote was 4 to 1. Commissioner Menken declared the motion carried. Voting aye were Menken, Hartford, Schmautz and Estes. Voting nay was Werner.

#### **NEXT COMMISSION MEETING**

The next Commission meeting will be in March, and the date will be announced when finalized.

#### **ADJOURNMENT**

Commissioner Estes moved and Commissioner Schmautz seconded the motion to adjourn. The motion carried and at 10:40 a.m. the Commission adjourned.